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FISCAL IMPACT STATEMENT

LS 7462

BILL NUMBER: HB 1466

NOTE PREPARED: Jan 22, 2015

BILL AMENDED: Jan 22, 2015

SUBJECT: Winding up Plan Participation.

FIRST AUTHOR: Rep. Carbaugh

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☒ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: (Amended) The bill provides that an employer that is eligible but not required to participate in the Public Employees' Retirement Fund (PERF) must pay the employer's share of the unfunded liability attributable to the employer's current and former employees if the employer withdraws from PERF or otherwise phases out its participation in PERF.

Effective Date: Upon passage.

Explanation of State Expenditures: *State as an Employer:* The bill affects the state as an employer. Currently, the state will realize an increase in its employer contribution rate over time due to the decisions of some other discretionary entities. The bill will eliminate this increase in the state's contribution rate.

(Revised) *State Educational Institutions & Separate Bodies Corporate and Politic:* The bill affects state educational institutions, as well as separate bodies corporate and politic, in as much as they may be "withdrawing participating entities" and may choose to withdraw from PERF (either in whole or in part) or may restrict enrollment in PERF to new employees. In those cases where they do withdraw employees or restrict enrollment into PERF for new employees, they are liable for the future benefits payable for their current and former employees who are enrolled in PERF.

Directly impacted by the bill are four state educational institutions that are known to have "frozen" new employees from participation in PERF since December 31, 2010. These institutions include Ivy Tech, Indiana University, Purdue University, and the University of Southern Indiana. The net present value of the total liabilities owed by these institutions is \$73 M.

INPRS: The bill requires that INPRS calculate additional amounts owed by withdrawing participating entities. This requirement is within the agency's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Additional Information: Several local entities as well as state educational institutions have restricted membership in PERF to new employees since 2011. These decisions were allowed according to existing PERF statute, and these entities were able to do this, in some cases, without providing notice to INPRS.

This restriction or "freezing" is different from a withdrawal, where notice to INPRS is required. It is possible, due to the lack of a notice requirement for freezing, that there are additional entities that have done this and are planning to act in a similar manner to these entities that have already placed "freezes" on PERF enrollment.

PERF is a cost-sharing pension plan where all employers pay the same contribution rate (currently 11.2% for all but a handful of local employers). Consequently, when these entities froze enrollment into PERF, they shifted some of the liabilities for their current and former employees in PERF to the other PERF employers. This is due to the fact that the affected discretionary entities are paying a contribution rate based on a gradually shrinking affected payroll (since the contribution rate is only paid on the portion of the employer's payroll that is covered in PERF).

According to INPRS, the decisions by these entities will cost other PERF employers approximately \$97 M in additional liabilities in today's dollars.

It is expected that these additional liabilities will be slowly absorbed by the remaining employers through 2043 and will, over time, increase their contribution rate by 0.23%. By 2043, the \$97 M liability shift will ultimately cost the remaining employers \$256 M.

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) Withdrawing participating entities that choose to restrict future enrollment in PERF will be required to pay an amount determined by INPRS in order to cover the entire amount of liabilities of their current and former employees that remain in PERF. Local entities that are known to have already restricted new employees from enrolling in PERF have known liabilities with a net present value of approximately \$24 M.

Explanation of Local Revenues:

State Agencies Affected: INPRS; State educational institutions; State separate bodies corporate and politic; All.

Local Agencies Affected: All.

Information Sources: 2014 INPRS Update to the Indiana State Budget Committee, November 20, 2014.

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